

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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June 19, 2007

Mr. Craig G. DeKany, Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

Re: AC# 3-OKW-J3 – HCR Manor Care d/b/a Oakmont West Nursing Home

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976, as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**HCR MANOR CARE
D/B/A OAKMONT WEST NURSING HOME
GREENVILLE, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-OKW-J3**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 26, 2007

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with HCR Manor Care d/b/a Oakmont West Nursing Home, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of HCR Manor Care d/b/a Oakmont West Nursing Home is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by HCR Manor Care d/b/a Oakmont West Nursing Home, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and HCR Manor Care d/b/a Oakmont West Nursing Home dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
March 26, 2007

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

OAKMONT WEST NURSING HOME
Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-OKW-J3

10/01/04-
09/30/05

Interim Reimbursement Rate (1)	\$117.83
Adjusted Reimbursement Rate	<u>112.29</u>
Decrease in Reimbursement Rate	\$ <u><u>5.54</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing as of January 24, 2007

OAKMONT WEST NURSING HOME
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2004 Through September 30, 2005
AC# 3-OKW-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 56.68	\$ 66.04	
Dietary		11.50	12.15	
Laundry/Housekeeping/Maintenance		<u>9.92</u>	<u>10.42</u>	
Subtotal	<u>\$6.20</u>	78.10	88.61	\$ 78.10
Administration & Medical Records	<u>\$ -</u>	<u>16.48</u>	<u>15.06</u>	<u>15.06</u>
Subtotal		94.58	<u>\$103.67</u>	93.16
<u>Costs Not Subject to Standards:</u>				
Utilities		2.51		2.51
Special Services		-		-
Medical Supplies & Oxygen		2.89		2.89
Taxes and Insurance		1.71		1.71
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$101.69</u>		100.27
Inflation Factor (4.70%)				4.71
Cost of Capital				12.82
Cost of Capital Limitation				(7.26)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.20
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.45)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$112.29</u>

OAKMONT WEST NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-OKW-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,537,829	\$ 90 (4) 119 (6)	\$ 24,751 (3) 980 (3) 1,050 (4) 16,804 (6)	\$2,494,453
Dietary	508,689	579 (6)	2,925 (3) 81 (9)	506,262
Laundry	113,676	2,521 (3) 10 (4)	-	116,207
Housekeeping	186,763	1,625 (7)	1,146 (3) 1,615 (8)	185,627
Maintenance	133,391	1,517 (3) 78 (4) 1,137 (7)	2 (6) 1,151 (8) 165 (9)	134,805
Administration & Medical Records	760,446	763 (3) 409 (4) 5,301 (7)	7,852 (3) 69 (4) 24,482 (6) 6,368 (8) 2,737 (9)	725,411
Utilities	110,537	2 (4) 942 (7)	1 (6) 942 (8)	110,538
Special Services	-	1,475 (9)	1,338 (3) 137 (4)	-
Medical Supplies & Oxygen	135,508	-	91 (4) 8,039 (9)	127,378
Taxes and Insurance	233,505	2,316 (4) 1,173 (6) 1,960 (7)	157,470 (2) 5,745 (5) 641 (8)	75,098

OAKMONT WEST NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-OKW-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Legal Fees	4,689	36 (7)	4,650 (6) 1 (8)	74
Cost of Capital	243,528	6,670 (4) 2,648 (7) <u>349,898</u> (10)	27,983 (1) 7,949 (6) <u>2,442</u> (8)	564,370
Subtotal	4,968,561	381,269	309,607	5,040,223
Ancillary	173,767	2,585 (9)	-	176,352
Nonallowable	698,158	27,983 (1) 157,470 (2) 34,191 (3) 52,017 (6) 13,160 (8) <u>6,962</u> (9)	8,228 (4) 13,649 (7) 349,898 (10)	618,166
Total Operating Expenses	<u>\$5,840,486</u>	<u>\$675,637</u>	<u>\$681,382</u>	<u>\$5,834,741</u>
Total Patient Days	<u>43,800</u>	<u>212</u> (11)	<u>-</u>	<u>44,012</u>
Total Beds	<u>125</u>			

OAKMONT WEST NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKW-J3

ADJUSTMENT		<u>DEBIT</u>	<u>CREDIT</u>
<u>NUMBER</u>	<u>ACCOUNT TITLE</u>		
1	Accumulated Depreciation	\$217,718	
	Other Equity	76,012	
	Nonallowable	27,983	
	Fixed Assets		\$293,730
	Cost of Capital		27,983
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	157,470	
	Taxes and Insurance		157,470
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
3	Laundry	2,521	
	Maintenance	1,517	
	Medical Records	763	
	Nonallowable	34,191	
	Nursing		24,751
	Restorative		980
	Dietary		2,925
	Housekeeping		1,146
	Administration		7,852
	Special Services		1,338
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

OAKMONT WEST NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKW-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
4	Nursing	90	
	Laundry	10	
	Maintenance	78	
	Administration	409	
	Utilities	2	
	Taxes and Insurance	2,316	
	Cost of Capital	6,670	
	Restorative		1,050
	Medical Records		69
	Medical Supplies		91
	Special Services		137
	Nonallowable		8,228
	To adjust shared service allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
5	Intercompany	5,745	
	Taxes and Insurance		5,745
	To remove expense applicable to shared service laundry facility		
	HIM-15-1, Section 2304		
6	Restorative	119	
	Dietary	579	
	Taxes and Insurance	1,173	
	Nonallowable	52,017	
	Nursing		16,804
	Maintenance		2
	Administration		24,482
	Legal		4,650
	Utilities		1
	Cost of Capital		7,949
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

OAKMONT WEST NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKW-J3

ADJUSTMENT NUMBER	ACCOUNT TITLE	<u>DEBIT</u>	<u>CREDIT</u>
7	Housekeeping	1,625	
	Maintenance	1,137	
	Administration	5,301	
	Legal	36	
	Utilities	942	
	Taxes and Insurance	1,960	
	Cost of Capital	2,648	
	Nonallowable		13,649
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Nonallowable	13,160	
	Housekeeping		1,615
	Maintenance		1,151
	Administration		6,368
	Legal		1
	Utilities		942
	Taxes and Insurance		641
	Cost of Capital		2,442
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Special Services	1,475	
	Ancillary	2,585	
	Nonallowable	6,962	
	Dietary		81
	Maintenance		165
	Administration		2,737
	Medical Supplies		8,039
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

OAKMONT WEST NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-OKW-J3

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
10	Cost of Capital Nonallowable	349,898	349,898
	To adjust capital return State Plan, Attachment 4.19D		
11	<u>Memo Adjustment:</u> To increase total patient days by 212 to 44,012		
	TOTAL ADJUSTMENTS	<u>\$975,112</u>	<u>\$975,112</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

OAKMONT WEST NURSING HOME
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-OKW-J3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.63785</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>125</u>
Deemed Asset Value	5,149,750
Improvements Since 1981	3,144,586
Accumulated Depreciation at 9/30/03	<u>(2,492,411)</u>
Deemed Depreciated Value	5,801,925
Market Rate of Return	<u>.0531</u>
Total Annual Return	308,082
Return Applicable to Non-Reimbursable Cost Centers	(2,605)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>234</u>
Allowable Annual Return	305,711
Depreciation Expense	264,538
Amortization Expense	-
Capital Related Income Offsets	(3,437)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,442)</u>
Allowable Cost of Capital Expense	564,370
Total Patient Days (Actual)	<u>44,012</u>
Cost of Capital Per Diem	\$ <u><u>12.82</u></u>

OAKMONT WEST NURSING HOME
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-OKW-J3

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 1.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>5.56</u>
Reimbursable Cost of Capital Per Diem	\$ 5.56
Cost of Capital Per Diem	<u>12.82</u>
Cost of Capital Per Diem Limitation	\$ <u>(7.26)</u>

2 copies of this document were published at an estimated printing cost of \$1.49 each, and a total printing cost of \$2.98. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.